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WESTERN EUROPE

A number of political and business leaders in Western Europe, searching for solutions to inflation and large payments deficits, are becoming increasingly pessimistic about Europe's ability to cope with worldwide economic problems. Some fear that a lack of concern in Washington for Europe's problems, coupled with the inability of the European Community to provide leadership, will discourage international approaches to these problems.

In a somber speech before the National Industrial Conference Board earlier this week, British Chancellor of the Exchequer Denis Healey warned that, given their interdependence, the European countries could not all hope to reduce their trade deficits and that cutthroat competition would only doom the weaker countries to economic and political chaos. Referring to the anti-inflationary policy being pursued by the US and West Germany, he also remarked that massive efforts to reduce domestic demand may precipitate a global economic slump. Healey, nevertheless, noted that recycling Arab oil revenues back to Great Britain was working well, and he predicted that the North Sea oil reserves will meet about half the country's needs within three years.

West German Chancellor Schmidt, who has devoted great energy to encouraging his counterparts to grapple seriously with Europe's problems, confided to the US ambassador earlier this week that his pessimism about restoring economic stability in Western Europe has deepened.

Despite efforts by Bonn to help Italy cover its oil bills, the Chancellor feels that Italy and perhaps Great Britain are approaching bankruptcy. This situation, in his view, threatens to cause a serious West European recession or even a depression that West Germany could not evade. The Chancellor's gloom is reinforced by his belief, as an economist, that the new approaches suggested so far seem only to touch the surface of the problems.

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Schmidt made an explicit plea for the US to keep Europe's problems in mind when framing economic policy. He complained that the high US interest rates not only draw money from German banks but attract Arab dollars that are sorely needed in Europe to cover the huge trade and payments deficits resulting from the high cost of petroleum. Unlike some of his advisers, Schmidt apparently fears that Europe will have to wait too long to benefit from the recycling of the so-called petrodollars.

As for collective European initiatives, Schmidt characterized French President Giscard's effort to restore movement to the European Community as largely psychological. He said his meeting with Giscard in Paris last week was disheartening because the French leader indicated little willingness to join in formulating a community-wide energy policy. Schmidt sees only dim prospects for reducing oil prices without joint action.

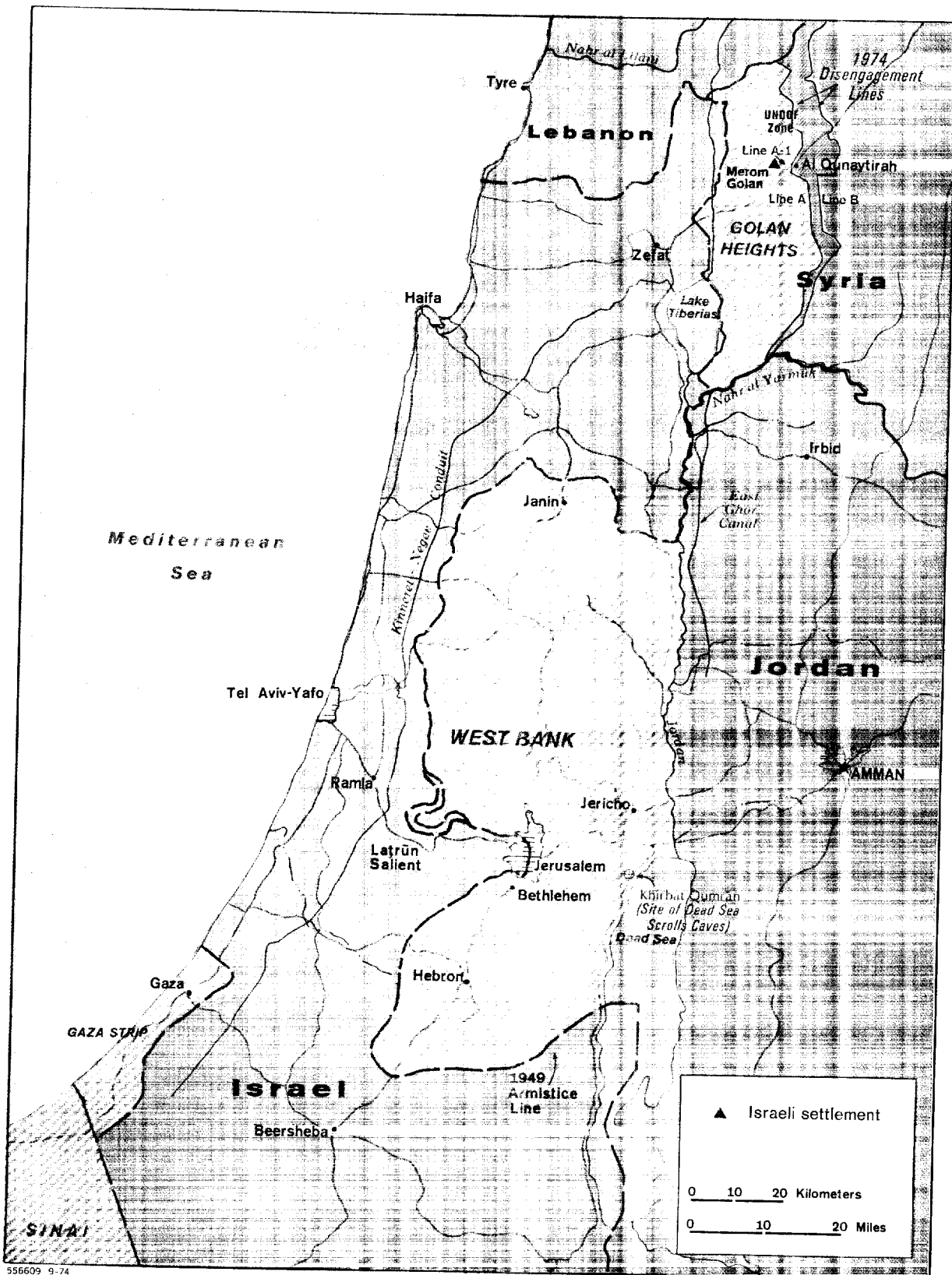
Schmidt agreed to Giscard's proposal to hold an EC summit later this year but stressed that he is not optimistic about the informal dinner meeting in Paris this weekend because he suspects that Giscard's suggestions will be largely ineffective. The Chancellor restated his conviction that the EC Commission is mired in its bureaucracy and that any progress in developing Europe will only come from the Council of Ministers.

The urgent need for greater multilateral cooperation, particularly between Europe and Washington, was also the theme of recent remarks by Danish Foreign Minister Guldberg to the US ambassador. Guldberg cautioned that this might require greater US understanding for Western Europe's need to increase production in fields such as aviation and electronics, in which the US now enjoys a large export market to Europe. He did not speculate on the prospect that other European governments would unilaterally impose import restrictions to reduce their trade and payments deficits, but he strongly implied that the spirit of economic nationalism could eventually undermine the European Community.

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That such pessimism over West Europe's future is general was evident last week in Vienna at the annual Alpbach Forum attended by some 250 financial and industrial leaders. Many participants voiced fear that Western Europe will be unable to attract Arab capital and will eventually have to "queue up" to borrow such funds invested in the US by oil-producing states. Most were deeply disheartened that the current economic dislocations, which make a European monetary union now virtually impossible, highlight Europe's weakness relative to the US.



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ISRAEL

The Israelis have inaugurated a new mining complex on the occupied Golan Heights near the Israeli-Syrian disengagement line just west of Al Qunaytirah. Minister of Commerce and Industry Haim Bar-Lev officiated at the opening on September 11, reportedly saying the \$950,000 complex would be "another anchor" for the Israelis on the Golan Heights.

As if to underscore the political importance of Israeli settlement activities, Bar-Lev reportedly said that the separation line with Syria would have been drawn differently--presumably returning more territory to Syria--but for the presence of the Golan settlements.

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Meanwhile, Jordanian newspapers are claiming that two groups of Israelis are planning to establish unauthorized settlements on the West Bank. Government-sponsored dailies in Amman on September 11 headlined reports that 300 orthodox Jewish settlers belonging to religious political parties in Israel are "assembled and organized" to build a settlement near Jericho--frequently mentioned in press speculation as part of an area most likely to revert to Jordan under the terms of an initial partial West Bank peace agreement. The newspapers also cite reports that the same Jewish group that attempted last July to establish an unauthorized settlement in the heavily Arab-populated northern West Bank area will try again during the Jewish holidays over the next two weeks. The would-be settlers hope that the government will hesitate to break the sanctity of the holidays by forcibly moving them.

The Jordanian press articles reflect the intense concern Israeli settlement activities in occupied territories generate in the Arab world, where they are

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seen as indications that Israel is not prepared to return these territories to the Arabs. King Faysal, especially, has made it a point to express to US officials his disquiet and displeasure over the Israeli actions.

For their part, the Israelis are divided over the settlement issue, and the government has tried to keep it from becoming the center of domestic controversy by approving new settlements only on a selective basis. Leftist Israelis have often demonstrated against settlement attempts, and a small, ultra-leftist party in the Knesset on September 12 threatened to take to the streets again in an effort to block these latest attempts should the government fail to do so.

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SOUTH KOREA - JAPAN

Seoul and Tokyo are still deadlocked over the wording of a proposed letter from Prime Minister Tanaka to President Pak Chong-hui, in which Tokyo is responding to strong Korean demands concerning responsibility for last month's assassination incident.

The Japanese have stated publicly that there will be no more concessions on the substance of the letter; the Koreans have warned [redacted] that unless a more accommodating draft is negotiated they will take diplomatic action against Tokyo. Such action--which would probably include the recall of Seoul's ambassador to Tokyo--seems likely soon, barring some last minute face-saving device.

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Meanwhile, anti-Japanese demonstrations continue in Seoul, [redacted]

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YUGOSLAVIA

Tito's revelation on Thursday that a group of "Stalinist" plotters is on trial in Yugoslavia threatens to worsen Yugoslav relations with Moscow and its loyal allies.

Shortly after Tito's stinging attack on the group, a Soviet diplomat in Belgrade assured the US embassy that Moscow was not involved in the "cominformist" affair, but acknowledged that the Yugoslav action was a "serious setback" in bilateral relations. Other East European diplomats are expressing similar fears regarding their own ties with Yugoslavia.

Tito's speech may have an immediate cooling effect on contacts with Soviet officials in Yugoslavia. USSR Deputy Premier Vladimir Novikov is currently visiting the country, as is a Soviet naval delegation. The chief of the Soviet general staff is scheduled to visit next week.

Western press reports from Belgrade indicate that the rumor mill is working full time elaborating on Tito's implied charges of Soviet complicity in the affair. According to one version, some of the "Stalinists" under arrest had visited the Soviet Union and had maintained close contacts with Soviet officials. Stories such as this, although clearly speculative, indicate the impact Tito's bombshell is having on the average Yugoslav.

In his speech, Tito decried the "lack of vigilance" that permitted anti-party factions once again to "raise their heads" and demanded stern action to nip such activities in the bud. The Yugoslav internal security apparatus is apparently gearing up to comply with this order. Colonel General Franjo Herljevic, the new minister of interior, visited state security officials in Belgrade yesterday and stressed "certain questions which require even more intensive work."

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It is unlikely that Tito seriously believes the activities of the "cominformists" constitute a real threat to Yugoslav security. He seems to be using the case to tell Moscow that it cannot use an umbrella of warm Soviet-Yugoslav relations to meddle in Yugoslavia's affairs.

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CYPRUS

Acting President Clerides and Turkish Cypriot leader Denktash appear to have made some progress yesterday in their third weekly session on "humanitarian issues."

They agreed to begin releasing sick and wounded prisoners Monday and to follow with the release of other categories of prisoners, including teachers, students, and religious and medical personnel.

Most of the differences now preventing a settlement seem to be as much a matter of timing as of substance. The Greeks concede that a federated state organized along geographical lines is the only realistic solution but refuse to negotiate until the Turks make concessions.

The Turks, in turn, appear willing to pull back from some of the territory they now occupy and to permit some Greek Cypriots to return to their homes, especially in Famagusta,

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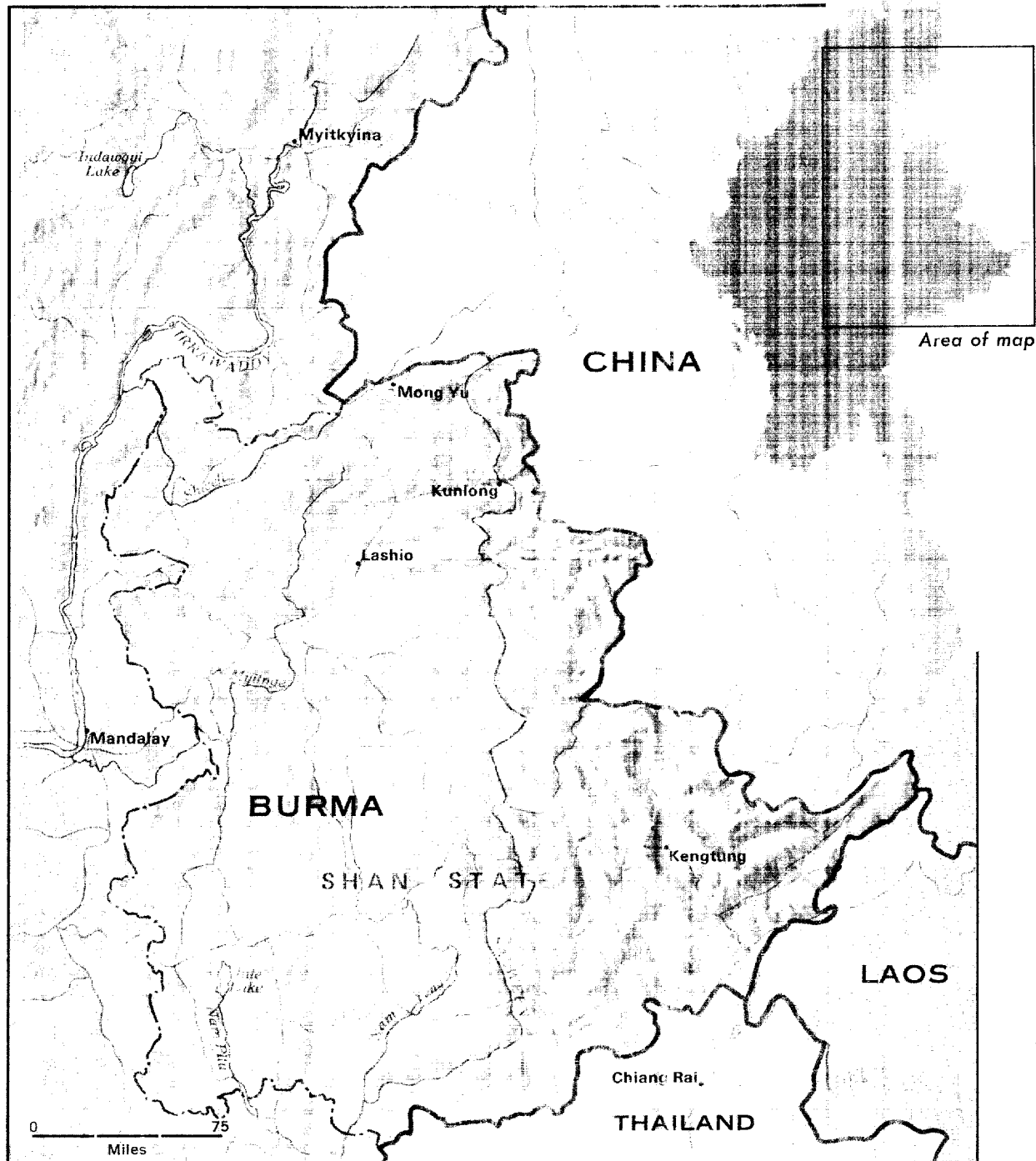
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BURMA

A drop in Chinese personnel support seems to be contributing to a somewhat reduced military threat from the Burmese Communist insurgents. Despite heavy rains and severe flooding in recent months, the Burmese army has won several significant battles in northeast Burma and has more than offset Communist successes.

The Communists still retain control over much of the countryside in northern and eastern Shan State. Moreover, much of the Burmese army remains tied down against the Communists, preventing the government from devoting more attention to combatting drug traffickers and non-Communist insurgent groups.

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MOZAMBIQUE

Order has largely been restored in Lourenco Marques after several days of civil disorders, but racial tensions are likely to remain high for some time.

According to an official communiqué from Lisbon on September 12, security forces in Lourenco Marques were concentrating their efforts against criminals taking advantage of the disorders, which stemmed in part from a black backlash to the short-lived rebellion by dissident whites last weekend. Local authorities were delivering food supplies to the black suburbs where most of the violence occurred. Stores and markets there, virtually all white-owned, were looted and burned during the rioting. The disturbances sparked an influx of white refugees into South Africa and also into Swaziland.

Trouble could flare up again in Lourenco Marques with the arrival, expected soon, of officials of the Front for the Liberation of Mozambique to take up positions in the transitional government that will prepare Mozambique for independence next June. Security forces, however, are likely to move quickly against any resurgence of violence. The Portuguese high commissioner, who will govern jointly with a front-appointed prime minister, arrived in Lourenco Marques on September 12.

Although the front has pledged to build a multi-racial society in Mozambique, many whites are likely to remain skeptical because they believe that neither the front nor the Portuguese show any evidence of allowing anti-front political organizations--white or black--a role in running the country.

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ETHIOPIA

The new military government appears to be settling down to business as Addis Ababa returns to normal.

General Aman, who has been designated by the Armed Forces Coordinating Committee as its spokesman, as well as chairman of the council of ministers, met September 12 with several heads of foreign diplomatic missions, including the US, Soviet, and Chinese chargés. The government also announced a few more cabinet changes. Former prime minister Mikael was downgraded to information minister and Foreign Minister Zewde has been stripped of his other post of deputy prime minister.

The committee has directed other civilian ministers, diplomats, and officials to stay on until further notice. According to a US embassy source, the committee explained to these officials, who were prepared to relinquish their posts to the military, that it lacked the competence to run the government.

Tanks have been withdrawn from Addis Ababa, and the number of police and military patrols has been reduced. The radio has resumed its normal programs, and the airport has been reopened. Other major cities are also reported calm.

There is no sign Crown Prince Asfa Wossen, the military's choice for figurehead successor to Haile Selassie, has decided to return from Geneva where he is recovering from a stroke.

Asfa Wossen could decline to return on grounds of poor health. He may fear that if he comes home, the military may force him to surrender his assets or use him to increase pressure on Haile Selassie to turn over money he allegedly has salted away overseas.

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The military may have designated Asfa Wossen with the realization that he might be reluctant to return home. The committee may have hoped this apparent move to preserve the monarchy would mollify those opposed to the removal of Haile Selassie.

The military government could face its most immediate problem from radical youth and students who are scheduled to return to classes later this month. The students are already unhappy with the committee's recent announcement that they should hold themselves ready to participate in development and drought relief projects in the countryside. The military so far has ignored violations of its ban on demonstrations by students who have favored the removal of Haile Selassie, but if student activities intensify the government may be forced to quell them.

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